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FINANCIAL MANAGEMENT

Defense's System for Army Military Payroll Is Unreliable



149980



United States
General Accounting Office
Washington, D.C. 20548

Accounting and Information
Management Division

B-253663

September 30, 1993

The Honorable Les Aspin
The Secretary of Defense

Dear Mr. Secretary:

This report presents the result of our evaluation of the payroll system for the Army's military personnel. During fiscal year 1992, the Department of Defense (DOD) completed the conversion of the Army's active military payroll to a new payroll system, the Joint Service Software (JSS) system which is operated by the Defense Finance and Accounting Service (DFAS). Our assessment of controls focused on whether payments (1) were made only to military personnel entitled to payment and (2) were accurately recorded, summarized, and reported. In addition, this report discusses the effectiveness of the process used to convert to the new payroll system. We performed this work in conjunction with our audit of the Army's consolidated financial statements for the period ending September 30, 1992, undertaken pursuant to the Chief Financial Officers (CFO) Act of 1990 (Public Law 101-576).

Results in Brief

Because of lapses in internal control, DFAS paid some Army personnel that should not have been paid and did not detect these overpayments. For example, our testing disclosed that DFAS made overpayments to more than 2,200 Army soldiers for the month of September 1992. Many of these soldiers received unauthorized payments for several months. The total overpayments amounted to about \$6.1 million. These overpayments occurred primarily because DFAS and Army personnel did not comply with established procedures.

We also found that DFAS (1) did not report and remit about \$66 million due to the Internal Revenue Service (IRS) for soldiers' income, Social Security, and Medicare taxes and (2) erroneously charged and did not fully reimburse the active Army's Military Personnel appropriation for costs chargeable to the Army's appropriations for Reserve and National Guard personnel. These errors occurred because the Army's payroll systems, JSS and its predecessor, did not accurately summarize payroll tax information, and JSS did not contain the proper codes to correctly identify appropriation charges.

The Army's payroll problems were exacerbated by the JSS implementation process because DFAS did not (1) correct existing system and data deficiencies, (2) test payroll data, and (3) provide adequate JSS training. To address these problems, DFAS recently established a JSS Accounting Task Force. In addition, we are recommending several actions needed to correct the problems with JSS and ensure that payments to soldiers are accurately made, recorded, and reported.

Background

In fiscal year 1992, the Army received about \$71.3 billion in appropriations. For military pay and allowances, the Army received a total of about \$29.8 billion, consisting of separate appropriations of \$24.2 billion for soldiers in the active Army, \$2.3 billion for the Army Reserve, and about \$3.3 billion for the Army National Guard.

During fiscal year 1991, DOD consolidated the military services' financial and accounting functions into DFAS. Also during that year, DFAS began to convert the active Army's military payroll from the Joint Uniform Military Pay System - Active Army (JUMPS-AA) to JSS, a system already used by the Air Force. This conversion was completed during fiscal year 1992. Under its corporate information management (CIM) initiative, DOD is planning to redesign its business practices and upgrade and integrate its automated information systems. The first step in this process is to select standard systems to process data for key business functions. DFAS has selected JSS to be the standard military pay system for all DOD services.

DFAS processes the Army's military payroll at its center in Indianapolis, Indiana. The DFAS center in Denver, Colorado, maintains the JSS software and is responsible for implementing all system changes. The Indianapolis center identifies system changes needed to meet the Army's JSS processing requirements, and provides this information to the Denver center. A number of changes have been necessary to make JSS compatible with Army's processes.

The payroll for military personnel who serve part-time in the Reserve and National Guard has not yet been converted to JSS. Instead, these soldiers continue to be paid by another system—the Joint Uniform Military Pay System - Reserve Component (JUMPS-RC). DOD plans to implement JSS for the Reserve and National Guard payroll, as well as for the other military services.

Scope and Methodology

To determine whether payments were made only to authorized personnel, we obtained the September 1992 JSS master pay file (paid on October 1) and compared it to the Army, Reserve, and National Guard personnel databases. To ensure that we had the appropriate master pay file, we matched the number of payments on that file with the number of military pay checks and electronic fund transfers reported to Treasury for the October 1, 1992, payday.

To evaluate the accuracy of payroll records and reports, we analyzed DFAS and Army documents that were used to report payroll disbursements to Treasury, payroll deductions to IRS, and charges to appropriations.

To determine how JSS was implemented for the Army, we discussed the design and conversion process with DFAS and Army officials. We also reviewed JSS project documentation, including implementation plans, functional descriptions, and testing results.

We performed our work from July 1992 through May 1993 in accordance with generally accepted government auditing standards. We performed our audit at DFAS locations in Arlington, Virginia, and Indianapolis, Indiana; at the Army Budget Office and the Office of the Comptroller, Army Reserve, in the Pentagon; the Army National Guard Readiness Center in Arlington, Virginia; and at the Army Personnel Command in Alexandria, Virginia. In addition, we contacted officials from the DFAS Denver location.

DOD provided comments on a draft of this report. These comments are discussed in the Agency Comments and Our Evaluation section and are reprinted in appendix I.

Some Payments Not Supported by Personnel Records

Because field-level finance offices did not always enter soldiers' separations from active duty and other personnel transactions in the payroll system in a timely manner, DFAS made payments to 1,644 individuals who clearly should not have been paid. Further, DFAS could not provide personnel records to support the basis for, or propriety of, payments to 635 other soldiers. To help ensure that soldiers are properly paid, the Army is required to periodically compare and reconcile its military payroll and personnel records. Although the Army did periodically compare these records during fiscal year 1992, neither the Army nor DFAS performed the research necessary to reconcile the two sets of data. Because thousands of soldiers on the Army's payroll could not be matched with Army personnel records, the Army had no assurance that these

individuals should have been paid. In fact, we found that DFAS paid \$6.1 million to 2,279 soldiers who should not have been paid.

Discrepancies Between Payroll and Personnel Data Not Investigated

The DOD Accounting Manual and Army Regulation 37-1 require periodic comparisons of payroll and personnel records, and appropriate actions to correct any differences between the data. These comparisons and corrections are critical when payroll and personnel data are maintained on separate systems, because payments should be authorized and computed based on information maintained in the personnel system.

During fiscal year 1992, the Army performed automated comparisons of military pay and personnel records. From these comparisons, the Army identified thousands of people on its payroll that it could not match to personnel records. For example, during July 1992, out of a total of about 829,000 active payroll records, the Army's comparison revealed over 203,000 questionable records that either did not match the active personnel records or that matched personnel records of soldiers who had been discharged from the active Army. Neither the Army nor DFAS performed research to resolve these discrepancies because of the large volume of mismatches, and because they believed that some of the mismatches resulted from the failure of field offices to enter transactions for troops returning from Operation Desert Storm.¹

We asked DFAS and Army officials to research the reasons for the July mismatches. After analyzing 201 of the 203,000 mismatches identified, the officials concluded that the mismatches resulted from payments to Reserve or National Guard personnel on active duty. Active duty Reserve and National Guard personnel are paid by the JSS payroll system because it is the only way that they can be paid for certain entitlements, such as meals and quarters allowances, received while on active duty. Accordingly, the JSS payroll system would contain records for active duty Reserve and National Guard personnel, but the active Army personnel system would not. Army and DFAS officials did not provide further explanation for the July mismatches.

While we agreed that this situation could be an explanation for some of the mismatches, we did not believe that it adequately substituted for the kinds of detailed investigation needed to determine the causes of

¹Thousands of Reserve and National Guard personnel went on active duty to serve in Desert Storm. When they returned from Desert Storm, some were not properly removed from the regular Army payroll, according to Army officials. During fiscal years 1992 and 1993, the Army was in the process of researching and "cleaning up" its data for these soldiers.

individual mismatches. Therefore, we obtained and compared Army payroll and personnel data for September 1992. We also obtained Reserve and National Guard databases to determine the extent to which the mismatches were due to payments to active duty Reserve and National Guard personnel.

We found that the Army's explanation regarding the Reserve and National Guard did account for many mismatches. However, after eliminating mismatches for Reserve and National Guard personnel, our comparison showed that DFAS paid 6,270 individuals for whom there were no personnel records. We provided a list of these mismatches to both DFAS and the Army. Officials researched these cases and, as of May 3, 1993, provided us with the information shown in table 1.

Table 1: DFAS Explanations of Unmatched Payments for September 1992

Justification provided	
Separated during September 1992	3,692
Re-enlisted	165
Other justification	134
Total justified	3,991
Pay justification not provided	
Separated prior to September 1992	1,219
Suspended status ^a	360
Other status (e.g., deserted, AWOL, ^b etc.)	65
No explanation	635
Total not justified	2,279
Total Unmatched Records	6,270

^aPayments held in suspension pending further research.

^bAbsent without leave; i.e., unauthorized absence.

Based on its research, DFAS identified 2,279 soldiers who had received improper payments totaling \$6.1 million, including \$2.7 million paid for the month of September 1992. DFAS determined that the 1,219 soldiers who had left the Army were overpaid by at least \$4.8 million. For these 1,219 separations, the time delay between the actual separation and the date payments were stopped averaged 103 days. Moreover, 87 of these individuals continued to receive pay checks for 300 days or more after they separated. DFAS is investigating each of the 2,279 cases to determine

further actions that the Army needs to take, including possible collection efforts to recover the overpayments.

Inaccurate and Unreliable Payroll Reporting

JSS, the DOD payroll system for active duty Army military personnel, does not accurately summarize and report payroll information. As a result, DFAS has been unable to ensure that it reports accurate information to the Army, IRS, and others. For example, DFAS did not properly report payroll data used to manage the Army's appropriations, and did not report and remit about \$66 million due to IRS for calendar years 1991 and 1992 income, Social Security, and Medicare taxes. In addition, the payroll deductions reported to soldiers did not agree with amounts reported and remitted to IRS. Finally, because of JSS systemic problems and field-level finance office input errors, the Army's Military Personnel appropriation was not fully reimbursed for payments to Reserve and National Guard soldiers.

JSS Produces Inaccurate and Inadequate Data

JSS produces payroll reports that contain inaccurate data and that do not provide all of the information needed by Army budget and financial managers and DFAS staff. For example, using data from the monthly JSS reports, the total wages (gross pay), less employee deductions, did not equal payments to military personnel (net pay). Other information, such as amounts paid under separation incentive programs, is not always accurately summarized by JSS, even though this information is needed to develop and monitor the budget for the Army's Military Personnel appropriation.

According to the DOD Accounting Manual, chapter 15, payroll reports should provide complete and reliable information to support budget execution and external users. However, DFAS did not fully comply with this directive. Each month, DFAS prepares reconciling schedules summarizing the Army's gross pay, deductions, and net pay, and manually enters these data in the accounting system. The monthly schedules show that the gross pay from JSS, less the payroll deductions from JSS, does not equal the net pay disbursements reported to Treasury on the Military Pay Voucher.

DFAS did not determine the reason for these unexplained differences. Instead, for 7 months of fiscal year 1992, DFAS labeled nearly \$11 million in unexplained differences as "plugs" and recorded them in the accounting system in a miscellaneous account. For the other 5 months of fiscal year 1992, we were not able to identify the differences.

A number of pay entitlements and deductions are not separately identified in the JSS reports. Instead, these items are combined in one or more summary accounts. For example, JSS reports combined casual pay² with debts due from soldiers and other pay elements. According to Army budget officials, accurate reporting of these items is essential to properly monitor the Army's appropriation status and to justify the Army's budget to DOD and the Congress.

Problems Were Identified But Not Corrected in Fiscal Year 1992

The Army budget office identified these and other payroll reporting problems and brought them to the attention of DFAS officials in writing. However, during fiscal year 1992, DFAS did not correct the problems despite numerous requests from the budget office. In May 1992, the DFAS center in Indianapolis acknowledged that JSS was not producing accurate data and stated that reliable information from JSS on items such as Desert Storm costs and separation pay was not available. From May through August 1992, the budget office repeatedly asked the Indianapolis center to take action to correct the inaccurate data reported from JSS. As the fiscal year-end approached, DFAS and Army officials expressed serious concern about overspending the Military Personnel appropriation and reported the JSS problems to DFAS headquarters. In an August 1992 memorandum to DFAS headquarters, Army financial management officials stated that the DFAS center in Indianapolis "had never balanced a single JSS payroll."

At the conclusion of our audit, DFAS officials indicated that they had difficulty identifying the payroll problems because (1) it took over a year to convert the Army to JSS and (2) DFAS was producing new reports required by the CFO Act and to implement the Defense Business Operations Fund. DFAS has subsequently identified some preliminary causes for the military pay reporting problems. For example, the JSS summary files used to produce the reports do not accurately accumulate information from the soldiers' individual pay records. Some individual pay data are not picked up in the summary file, while other data that are in the summary file are improperly combined with data from other pay elements.

DFAS Unable to Reconcile Payroll Deductions Withheld and Remitted

Because of DFAS's inability to reconcile Army's gross and net pay, DFAS cannot ensure that payroll deductions—such as amounts withheld for income, Social Security, and Medicare taxes—are accurately reported and remitted. We found that the annual summary of the payroll taxes reported to IRS did not agree with the quarterly tax returns and remittances filed

²Casual pay means advance payments to soldiers for entitlements already earned.

with IRS for calendar years 1991 and 1992. We also found that amounts reported for Social Security and Medicare withholdings did not equal the amounts that should have been withheld and remitted to IRS based on total wages and applicable withholding rates. As a result of these errors, for calendar years 1991 and 1992, DFAS did not properly report and remit about \$66 million due to IRS.

IRS requires employers, including the Army, to use Form 941 to report payroll deductions for federal income, Social Security, and Medicare taxes on a quarterly basis. IRS instructions also state that the payroll amounts reported quarterly on the Form 941s should agree with the amounts reported to IRS annually on the Form 6559s (summaries of W-2 Wage and Tax Statements).

To prepare the quarterly Form 941s for the Army, DFAS used data from JSS summary payroll reports. However, we found that these JSS reports are inaccurate. First, these reports reflected different amounts for the wages subject to Social Security tax and the wages subject to Medicare tax, even during the first quarter of the year when these wage amounts should have been equal.³ During the first quarter of calendar year 1992, wages subject to Medicare tax exceeded wages subject to Social Security tax by more than \$2.6 million. Second, the JSS reports reflected Social Security and Medicare deductions that did not equal the applicable tax rates multiplied by the reported wages. For calendar years 1991 and 1992, these differences amounted to about \$1.8 million.

DFAS did not reconcile the wages and taxes reported on the quarterly Form 941s with the wages and taxes reported on the annual Form 6559s, even though IRS requires these reports to agree. While the Form 941 data come from the JSS reports, the Form 6559 data are generated directly from the soldiers' annual W-2 statements. We found that the totals of the Form 941s for calendar years 1991 and 1992 did not equal the amounts on the Form 6559s. Based on the totals reported on these forms, approximately \$66 million in payroll taxes was not reported and remitted to IRS during fiscal years 1991 and 1992, as shown in table 2.

³For calendar year 1992, the maximum amount of wages subject to Social Security tax was \$55,500, while the maximum amount of wages subject to Medicare tax was \$130,200. During the first quarter of the year, the wages for an individual serving in the Army would not exceed either of these ceilings.

Table 2: Amounts Not Paid to IRS Due to Underreporting of Payroll Deductions

Dollars in millions

Army component	Calendar year		Total
	1992	1991	
Active Army	\$ 16.6	\$ 9.3	\$ 25.9
Reserve/National Guard	6.8	33.7	40.5
Total	\$ 23.4	\$ 43.0	\$ 66.4

Army's Military Personnel Appropriation Erroneously Charged for Reserve Component Personnel Costs

The Army annually receives three separate appropriations for the pay and allowances of its active Army, Reserve, and National Guard military personnel. Because some personnel were inaccurately coded within JSS, the active Army Military Personnel appropriation was erroneously charged for some Reserve and National Guard pay, and it sometimes did not receive accurate or timely reimbursement for these erroneous charges.

While active Army soldiers are paid from JSS, most Reserve and National Guard soldiers are paid from another payroll system. However, certain Reserve and National Guard soldiers—those who attend initial active duty training (IADT) and those who serve on full-time active duty with the Reserve or National Guard (called AGRs)—are paid from the active Army JSS payroll system. These soldiers are paid from JSS because they are entitled to certain benefits, such as various living allowances, that cannot be paid from the Reserve and National Guard payroll system. Because some of these personnel were incorrectly coded within JSS, their pay and benefits were improperly charged to the Army's Military Personnel appropriation.

Reserve and National Guard personnel are supposed to be identifiable on JSS through the use of component codes. However, inaccurate instructions were provided to field finance offices, and incorrect component codes were assigned to some soldiers when DFAS converted the Army to JSS. Because of the inaccurate instructions and the conversion problem, some Reserve and National Guard soldiers were recorded as active Army personnel. As a result, JSS payroll reports did not accurately reflect charges to the appropriations for active Army, Reserve, and National Guard personnel. Throughout fiscal year 1992, DFAS used the inaccurate data to charge each of the three appropriations.

DFAS officials said they were aware that JSS was charging some IADT and AGR personnel to the active Army appropriation. DFAS tried to correct the erroneous IADT charges by using monthly cost estimates provided by

Reserve and National Guard officials. Based on these estimates, DFAS transferred costs of about \$130 million from the active Army personnel appropriation to the Reserve and National Guard personnel appropriations.

DFAS officials said that they corrected the inaccurate AGR charges by recording offsetting amounts in the accounting system. However, DFAS did not prepare any official documents to authorize these transactions. Without an audit trail, we could not verify these transactions. Moreover, because of the incorrect component codes and other JSS reporting problems, any charges transferred for AGRS may not be accurate. On April 14, 1993, the Deputy Director for Accounting Operations at the Indianapolis center issued a memorandum to DFAS personnel re-emphasizing the requirement that manually prepared entries to the accounting system must be supported by properly executed authorization documents.

JSS Implementation and Limitations Contributed to Payroll Problems

Although DFAS believed it complied with DOD requirements and had the approval of the Army Major Automated Information Systems Review Council,⁴ it did not follow required procedures for the proper implementation of a new system. We believe this contributed to JSS producing erroneous reports that could neither be reconciled with accounting data nor be used to manage the military pay appropriation. In addition, neither the prior payroll system (JUMPS-AA) nor JSS are integrated with the Army personnel system. This limitation, combined with other internal control weaknesses, allowed unauthorized payments to be issued to soldiers.

DOD instructions and Army regulations require that when a military service implements a new automated system, it should (1) identify and incorporate all relevant requirements of that system, (2) validate the accuracy of the data entered into the system, (3) adequately test the system to ensure that requirements have been properly interpreted and that all computations are performed correctly, and (4) provide adequate training to the personnel who will work with the system. However, DFAS did not fully comply with these requirements during JSS implementation.

⁴The Army Major Automated Information Systems Review Council reviews proposed acquisitions of major automated information systems and makes recommendations to the Secretary of the Army or the Chief of Staff, Army.

Requirements Not Determined

The team responsible for implementing JSS had two primary objectives: (1) ensure that soldiers were paid on time and (2) incorporate the same functions in the new system that existed in the previous system, JUMPS-AA. Because they decided to limit JSS capabilities to those that existed under JUMPS-AA, the team did not identify and incorporate all the relevant requirements for a military payroll system. For example, Army officials who manage the military personnel appropriation said they need certain information, such as the amounts of separation incentive pay, casual pay, and other pay elements, which JSS does not accurately summarize. In addition, the team did not correct deficiencies or limitations that existed under JUMPS-AA. For example, DFAS's inability to reconcile the Army's gross and net pay, as previously described, carried over from JUMPS-AA to JSS.

Payroll Data Not Verified

The implementation team also did not validate soldiers' individual payroll data before recording it in JSS because they believed soldiers were being properly paid. While the data were checked to ensure that allowable codes were used for all necessary data, no soldiers or supervisory personnel were asked to validate payroll information, nor was any alternate procedure used to verify specific information for individuals. As a result, errors in data, such as incorrect component codes, were not detected, causing payroll disbursements to be charged to the wrong appropriations.

Computational and Summarization Processes Not Adequately Tested

Adequate testing of JSS should have identified and corrected such deficiencies as the tax reporting problems previously discussed. A specific test with predetermined results should have been performed for each computation. For example, the team should have determined that Social Security and Medicare taxes reported on the Forms 941 did not equal the applicable rates times the appropriate wages. Furthermore, according to officials of the DFAS center in Denver, the Air Force JSS has had problems summarizing payroll tax information for many years. A report on DFAS headquarters' assessment of the Air Force JSS stated that until the system's tax reporting problems are corrected, "there is no assurance that the amounts reported are correct." The assessment also stated that data in soldiers' pay accounts and "reported on the 1992 W-2 forms could be erroneous." This should have been recognized as an indicator that testing was required.

Adequate Training Not Provided to Accounting and Budget Personnel

Finally, DFAS did not ensure that adequate training on JSS was provided to all necessary personnel. Although training was provided to military pay personnel responsible for entering payroll information into the system,

written instructions for these personnel contained erroneous information. Furthermore, training was not provided to DFAS accounting personnel responsible for summarizing and reporting payroll information nor to Army budget personnel responsible for managing the Army military personnel appropriations.

Recognizing that training was needed, DFAS developed special training and provided it to installation and DFAS personnel about 9 months after JSS implementation had been completed. Specifically, personnel received training on how to record, monitor, and research JSS data. However, the Army budget personnel were not included in this training and their concerns were not addressed at that time.

DFAS Actions to Resolve Payroll Problems

In January 1993, DFAS established a JSS Accounting Task Force to address the Army's military pay problems. The task force's major objectives include (1) identifying and correcting pay data that are not summarized correctly and which prevents the reconciliation of gross and net pay and (2) addressing other payroll problems we identified.

DFAS has directed the Indianapolis center to research the records of each of the 2,279 soldiers who were paid but not listed in the personnel records. The Indianapolis center has searched its automated pay files and reviewed other records for enlisted personnel to help determine why these soldiers were paid and not listed in the personnel records. As of May 3, 1993, it had not been able to justify these payments. The Army's Personnel Command and field offices are assisting DFAS in this effort. Ultimately, DFAS expects to determine why the 2,279 soldiers were paid but not listed in the personnel records, identify systemic weaknesses that allowed this situation to exist, quantify the amounts overpaid, and take action to recoup these funds. In June 1993, DOD officials informed us that they had started to follow up on exceptions from the monthly comparisons of payroll and personnel records, beginning with the March 1993 pay period.

The Acting Director of DFAS issued a letter to both the Denver and Indianapolis DFAS centers which stated that the reconciliation of gross and net pay is essential to ensure the proper reporting of financial information to Treasury and for maintaining accurate payroll accounts. He also directed the centers to determine why the summary account information does not reconcile to the pay records.

The JSS Accounting Task Force is also addressing other payroll problems that we cited, including the use of incorrect component codes. On March 23, 1993, DFAS's Indianapolis center sent a memorandum to the field finance offices describing revised procedures for recording component codes, which were to become effective immediately. The task force also compared the March 1993 pay and personnel records to identify inconsistencies in the component codes. This comparison resulted in a net reduction of 3,060 soldiers that were improperly coded as active Army—1,587 from the National Guard and 1,473 from the Reserve. DFAS officials said that the service component codes would be changed to ensure that the accounting reports are correct. In addition, they said DFAS will determine the amount of the charges to be transferred among the Army, National Guard, and Reserve personnel appropriations for fiscal year 1993 based on its analysis of the component code changes.

Integrated Payroll and Personnel Systems Can Increase Efficiency and Control

DFAS was able to pay some soldiers who should not have been paid, and pay other soldiers without supporting personnel records, in part because JSS is not integrated, nor does it interface, with the personnel system. According to Title 6 of GAO's Policy and Procedures Manual for Guidance of Federal Agencies, a payroll system should interact with a personnel system as efficiently and effectively as practical through either integration or system-to-system interface. An integrated system is the most efficient means of interaction because it maintains one set of information shared by the payroll and personnel functions; thus, changes to personnel records automatically update the payroll records. If the Army had an integrated payroll and personnel system, payments to a separated soldier would be automatically terminated as soon as the proper separation information was input into the common database containing both personnel and payroll information. This lack of any integration or interface with personnel, a significant limitation, carried over from JUMPS-AA to JSS.

DOD's Chief Financial Officer Financial Management 5-Year Plan states that DOD plans to integrate systems across functional areas by the end of fiscal year 1996. Although not specified in the plan, one example of such integration would be that of payroll and personnel. The 5-Year Plan also states that, as an interim step until integration is achieved, DOD will develop standard interfaces which allow two-way data flow between functional areas (including personnel) and the financial system. The plan, however, does not specifically indicate milestones or steps to accomplish either an interim interface between payroll and personnel, or ultimately, integration of those systems.

Conclusions

Some of the Army's payroll problems described in this report are long-standing, while others are related to the recent introduction of JSS into the Army. The lack of controls over separations resulted in thousands of payments to personnel not entitled to pay, and the government must now incur additional costs to recover the overpayments. DFAS has recognized the significance of these problems and has established the JSS Accounting Task Force to address them. We believe this is a promising first step. However, the planned introduction of JSS to the Navy and other DOD components will create the same types of problems in those organizations unless DOD corrects these deficiencies before converting other military personnel to the new system. Therefore, top management's attention and priority to these matters is clearly warranted. Correcting these problems will require cooperative actions by various DOD organizations.

Recommendations

We recommend that the Secretary of Defense instruct the Acting Secretary of the Army and the Acting DOD Chief Financial Officer to

- direct and monitor efforts to recover the amounts due to the government resulting from improper Army payroll payments and
- monitor the progress and effectiveness of the special task force for resolving problems with the JSS system used for Army to ensure that overpayments are identified and corrected, and that future JSS reports are accurate.

We also recommend that the Secretary of Defense direct DOD's Acting CFO, in consultation with the Assistant Secretary for Command, Control, Communications, and Intelligence, and the Service Secretaries, to include in DOD's Chief Financial Officer Financial Management 5-Year Plan, specific milestones and steps for developing an interim interface between payroll and personnel, and ultimately, integration of those systems.

In addition, we recommend that the Secretary of Defense require the Service Secretaries and the DFAS Director to incorporate basic system development standards and requirements into the planned JSS conversions, which include (1) identifying the services' relevant requirements, (2) incorporating those requirements into JSS, (3) validating the accuracy of payroll data entered into JSS, and (4) providing adequate training for personnel who will work with JSS.

Agency Comments and Our Evaluation

In commenting on a draft of this report, DOD generally agreed with our recommendations and related findings. However, it partially concurred with our finding and recommendation to take steps and establish milestones to integrate its payroll and personnel systems. DOD also partially concurred with our finding concerning the improper procedures followed during JSS implementation.

DOD partially concurred with our finding and recommendation to include in the DOD Chief Financial Officer Financial Management 5-Year Plan specific milestones and steps for developing an interim interface between, and ultimately integration of, payroll and personnel systems. DOD agreed that a common database for payroll and personnel would significantly reduce incorrect payments, and said that it would explore developing an automated data exchange between its payroll and personnel systems. Consequently, DOD stated it would be premature to develop specific milestones for inclusion in its 5-Year Plan for fiscal year 1993. In addition, DOD stated that the DOD Chief Financial Officer will ask the DFAS Director to explore the development of automated data exchange between the payroll and personnel systems. However, neither the DOD Chief Financial Officer nor the DFAS Director alone has sufficient authority to ensure that specific steps are taken toward the integration or interface of payroll and personnel systems. The Service Secretaries who are responsible for the personnel systems, and the Assistant Secretary for Command, Control, Communications, and Intelligence, who oversees the development of all DOD systems, must also be involved in managing this effort. Further, while it may be too late to include specific milestones in DOD's 5-Year Plan for fiscal year 1993, we continue to believe that DOD should establish milestones as it updates its 5-Year Plan to help ensure that it takes positive steps toward the needed interface and integration of its payroll and personnel systems.

DOD partially concurred with our finding that DFAS did not follow required procedures during implementation of JSS for the Army's payroll. DOD stated that JSS implementation managers believed they were in compliance with all DOD directives and that the Major Automated Information Systems Review Council approved the implementation process at every milestone point. Nonetheless, they did not comply with all requirements and, as demonstrated by our findings, approval by the Council did not ensure that proper procedures were followed. DOD also asserted that not all payroll data were validated because JSS was a mature system that had been successfully paying Air Force personnel for years. We do not agree that JSS was a mature system, as evidenced by the over 300 changes that were

made to it prior to its implementation for the Army. In addition, the Air Force had been experiencing problems with JSS for several years prior to its implementation for the Army. Moreover, a system's maturity has no bearing on the quality of data being entered into it; thus, data must still be verified prior to its input.

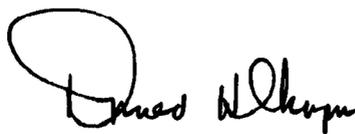
DOD also partially concurred with two other findings concerning (1) payroll summarization and reporting, and (2) the Army's ability to manage its military pay appropriations. We address these comments in appendix I. The complete text of DOD's comments are also included in appendix I.

This report contains recommendations to you. The head of a federal agency is required by 31 U.S.C. 720 to submit a written statement on actions taken on these recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Acting Secretary of the Army; the Acting Chief Financial Officer of the Department of Defense; the Director, Office of Management and Budget; and to the Chairmen and Ranking Minority Members of the House and Senate Armed Services Committees, the Senate Committee on Governmental Affairs, the House Committee on Government Operations, the House Committee on Appropriations, and the Senate Committee on Appropriations.

This report was prepared under the direction of David M. Connor, Director, Defense Financial Audits, who may be reached at (202) 512-9095 if you have any questions concerning this report. Major contributors to this report are listed in appendix II.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Donald H. Chapin".

Donald H. Chapin
Assistant Comptroller General

Comments From the Department of Defense

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



OFFICE OF THE COMPTROLLER OF THE DEPARTMENT OF DEFENSE

WASHINGTON, DC 20301-1100

JUL 14 1993

(Management Systems)

Mr. Donald H. Chapin
Assistant Comptroller General
Accounting and Financial
Management Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Chapin:

This is the Department of Defense (DoD) response to the General Accounting Office draft report, "FINANCIAL MANAGEMENT: Army Military Payroll System Is Unreliable," dated June 9, 1993 (GAO Code 918807), OSD Case 9276-A. The Department generally agrees with the draft report.

The Department has taken a number of actions to improve accounting and reporting for military payroll. The most significant improvements are (1) the October 1992 establishment of a Joint Service Software accounting team to address and resolve the deficiencies in the payroll system and (2) the identification of numerous computer system changes to reduce disbursements that do not match supporting personnel records.

The detailed DoD comments on the draft report issues and recommendations are provided in the enclosure. The Department appreciates the opportunity to comment on the draft report.

Sincerely,


Alvin Tucker
Deputy Comptroller
(Management Systems)

Enclosure

GAO DRAFT REPORT--DATED JUNE 9, 1993
(GAO CODE 918807) OSD CASE 9276-A

"FINANCIAL MANAGEMENT: ARMY MILITARY
PAYROLL SYSTEM IS UNRELIABLE"

DEPARTMENT OF DEFENSE COMMENTS

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DISCUSSION ISSUES

ISSUE 1: Some Payments Not Supported by Personnel Records.
The GAO concluded that, because separations from active duty and other personnel transactions were not always entered in the payroll system in a timely manner, the Defense Finance and Accounting Service made payments to individuals who should not have been paid. The GAO further concluded that the Defense Finance and Accounting Service could not provide personnel records to support the basis for, or propriety of, payments to other military personnel. (pp. 1-10/GAO Draft Report)

Now on pp. 3-6.

DoD RESPONSE: Concur. However, it should be noted that the vast majority of military members were properly paid. Additionally, the DoD payroll system for active duty Army military personnel and the Army military personnel system are not integrated. It should be anticipated that, at any given point in time, nonintegrated systems will have some information that should be, but is not, identical, due to differences in the time that the data is entered into each system. Further, personnel files, against which the payroll records are compared, do not always include all members who are paid from the Army military pay system. For example, normal monthly personnel record matches may exclude files for personnel on initial active duty for training, in preparatory school, or on long-term training assignments.

See comment 1.

See comment 2.

Separations from active duty and other personnel transactions, recorded via paper documents, are not always entered into the payroll system at the same time as they are entered into the personnel system. When members are separated prior to their normally scheduled separation date, and such transactions are not input to the pay system prior to their early separation, a member could be paid even though that member may have been dropped from the personnel system.

Prior to converting to the Joint Service Software, the Army Personnel Command supplied the Defense Finance and Accounting Service-Indianapolis Center with an automated

Appendix I
Comments From the Department of Defense

See comment 3.

file of separated records on a monthly basis to be matched to the active pay files. During the October-November 1991 timeframe, a management decision was made to suspend the matching process. During Operations Desert Shield/Desert Storm, a very large number of Reserve members were activated. The pay records of those personnel were "rolled over" from the Reserve pay system to the active pay system as a whole. However, the personnel system was not similarly modified. Thus, a comparison of payroll and personnel records would have produced an unmanageable number of mismatches. Shortly after the completion of Operations Desert Shield/Desert Storm, the Defense Finance and Accounting Service-Indianapolis Center started converting active pay accounts to the new Joint Service Software system. That conversion likewise would have significantly complicated any resumption of the matching process. The combination of these two conditions resulted in extremely large numbers of mismatches--which exceeded Army and Defense Finance and Accounting Service ability to conduct meaningful research. However, now that the conversion to Joint Service Software has been completed, the matching process has been reinstated and worked intensively since March 1993. This effort should increase the ability of the Indianapolis Center to detect inconsistencies between the personnel and payroll systems.

See comment 4.

ISSUE 2: Inaccurate and Unreliable Payroll Reporting. The GAO concluded that the Army military payroll system--the Joint Service Software--does not accurately summarize and report payroll information. The GAO further concluded that, as a result, the Defense Finance and Accounting Service has been unable to ensure it reports accurate information to (a) the Army, (b) the Internal Revenue Service, and (c) others. The GAO also concluded that because of the Joint Service Software systemic problems and input errors, the Army Military Personnel appropriation was not fully reimbursed for payments to reserve component military personnel. (pp. 10-18/GAO Draft Report)

Now on pp. 6-10.

DoD RESPONSE: Partially concur. A Joint Service Software Accounting Task Force was established in October 1992 to determine the system changes necessary to ensure that output products accurately report military pay information to the Army, the Internal Revenue Service, and any other users. The task force identified and requested over two dozen system support changes which, when fielded, should greatly increase the ability of the Indianapolis Center to record and report military pay information accurately. Until these automated system changes are developed and implemented, the team has developed work-around solutions to ensure that outlay and tax reporting are more accurate. In addition, the task force identified over 30 changes in

See comment 5.

internal control processes to be implemented. Those internal control processes will be incorporated into standard operating procedures during FY 1993.

ISSUE 3: The Joint Service Software Implementation and Limitations Contributed to Payroll Problems. The GAO concluded that, during implementation of the Army payroll system to the Joint Service Software, the Defense Finance and Accounting Service did not follow required procedures for the proper implementation of a new system. The GAO further concluded that, neither the prior payroll system Joint Uniform Military Pay System-Active Army nor the Joint Service Software are integrated with the Army personnel system. The GAO also concluded that the limitation, combined with other internal control weaknesses, allowed unauthorized payments to be issued to soldiers. (pp. 18-21/GAO Draft Report)

Now on pp. 10-12.

See comment 6.

DoD RESPONSE: Partially concur. The Joint Service Software system is not a new, unproven system. Furthermore, managers of the Joint Service Software implementation believed they were in compliance with all applicable DoD directives. The entire implementation process received oversight from the Major Automated System Information Review Council, which is a DoD-level review process. The Joint Service Software implementation process was approved by the Major Automated System Information Review Council at every milestone point. There also was a conscious decision made not to perform a 100 percent validation of all pay account data. The decision was made because the Joint Service Software system was a mature system that had successfully been paying Air Force members for years.

ISSUE 4: The Defense Finance and Accounting Service Actions to Resolve Payroll Problems. The GAO observed that the Defense Finance and Accounting Service recognized the significance of the Army payroll problems and established the Joint Service Software Accounting Task Force to address issues. The GAO concluded, however, that the payroll problems will continue to have an adverse effect on the ability of the Army to manage its appropriations and account for its resources until those problems are properly corrected. (pp. 22-24/GAO Draft Report)

Now on pp. 12-13.

See comment 5.

DoD RESPONSE: Partially concur. As discussed previously, the Joint Service Software task force has developed work-around solutions that are expected to resolve previous problems. For example, file searches have been developed that have reduced gross-to-net reconciliation differences. With additional control processes in place, the trend in reconciliation differences continues to decrease. Another

file search program developed by the task force is in place to identify obligation amounts in the system for members who have separated and are no longer due pay.

ISSUE 5: The Integrated Payroll and Personnel Systems Can Increase Efficiency and Control. The GAO also observed that the Department plans to integrate systems across functional areas by the end of FY 1996. The GAO concluded, however, that, although not specified in the DoD Chief Financial Officer Financial Management 5-Year Plan, the Department should include (a) the integration of payroll and personnel areas and (b) the specific milestones or steps to accomplish the integration. (pp. 24-26/GAO Draft Report)

Now on p. 13.

DoD RESPONSE: Partially concur. The Department agrees that a shared pay/personnel database would significantly reduce, as well as help eliminate, mispayments due to differences between pay and personnel records. At this time, however, the Department does not have specific plans for the integration of its military personnel and payroll systems beyond that found in the U.S. Marine Corps.

See comment 6.

* * * * *

RECOMMENDATIONS

- RECOMMENDATION 1. The GAO recommended that the Secretary of Defense instruct the Acting Secretary of the Army and the Acting DoD Chief Financial Officer to direct and monitor efforts to recover the amounts due to the Government resulting from improper Army payroll payments. (p. 26/GAO Draft Report)

Now on p. 14.

DoD RESPONSE. Concur. Standard operating procedures exist for the Defense Finance and Accounting Service to determine and collect "out-of-service" debts. Once a separation action is extended within the Joint Service Software system, the system will determine the amount of debts, if any, and pass that information to the Out-of-Service Debt System. The Defense Finance and Accounting Service-Indianapolis Center currently is effecting debt collection. As of May 24, 1993, some \$700,000 already had been collected. To the extent feasible, the Army and the Defense Finance and Accounting Service will recover the remaining amounts due to the U.S. Government because of inaccurate Army payroll payments under the Debt Collection Act of 1982.

See comment 7.

Now on p. 14.

- **RECOMMENDATION 2.** The GAO recommended that the Secretary of Defense instruct the Acting Secretary of the Army and the Acting DoD Chief Financial Officer to monitor the progress and effectiveness of the special task force for resolving problems with the Joint Service Software system used for Army to ensure that overpayments are identified and corrected, and that future Joint Service Software reports are accurate. (pp. 26/GAO Draft Report)

DOD RESPONSE. Concur. The Army and the Defense Finance and Accounting Service will continue to monitor and report on the progress and effectiveness of the Joint Service Software Accounting Task Force to ensure that overpayments are identified and corrected and that future Joint Service Software reports are accurate. The Joint Service Software Accounting Task Force currently provides monthly progress reports to the Defense Finance and Accounting Service Headquarters. The task force will continue working those issues until the problems are resolved.

Now on p. 14.

- **RECOMMENDATION 3.** The GAO recommended that the Secretary of Defense direct the DoD Chief Financial Officer, in consultation with the Assistant Secretary for Command, Control, Communications and Intelligence, and the Service Secretaries to include in the DoD Chief Financial Officer Financial Management 5-Year Plan specific milestones and steps for developing an interim interface between payroll and personnel, and ultimately, integration of those systems. (pp. 26-27 GAO Draft Report)

DOD RESPONSE. Partially concur. By August 15, 1993, the DoD Chief Financial Officer will ask the Director, Defense Finance and Accounting Service, to work with the appropriate DoD functional elements and the Military Departments to explore the development of automated data exchange between payroll and personnel systems. However, it is premature to project the outcome of such efforts or to develop specific milestones for inclusion in the DoD Chief Financial Officer Financial Management 5-Year Plan for FY 1993.

See comment 6.

- **RECOMMENDATION 4.** The GAO recommended that the Secretary of Defense require the Service Secretaries and the Director, Defense Finance and Accounting Service, to incorporate basic system development standards and requirements into the planned Joint Service Software conversions, which include (a) identifying the relevant requirements of the Services, (b) incorporating those requirements into the Joint Service Software, (c) validating the accuracy of payroll data entered into the

Now on p. 14.

Joint Service Software, and (d) providing adequate training for personnel who will work with the Joint Service Software. (p. 27/GAO Draft Report)

See comment 8.

DoD RESPONSE. Concur. The Military Departments and the Defense Finance and Accounting Service will work together to ensure that appropriate actions are taken during further conversions to the Joint Service Software system. Those actions will include, but not be limited to, consideration of the following items: (a) identifying relevant functional requirements for each Military Service using the Joint Service Software system, (b) ensuring that the accuracy of payroll data entered into the Joint Service Software system is validated prior to entry, and (c) providing essential training to those personnel who will work with the Joint Service Software system.

In addition, the testing and validation system provided by the Defense Finance and Accounting Service-Indianapolis Center will be made available to the DoD Components for use prior to implementation. Finally, training in the use of the Joint Service Software system and data outputs will be provided by personnel who are working with the system.

It is anticipated that, by October 31, 1993, milestones will be developed to complete all actions previously discussed.

The following are GAO's comments on the Department of Defense's July 14, 1993, letter.

GAO Comments

1. We agree that timing differences of a few days might exist and result in improper payments when payroll and personnel systems are not integrated. However, to allow unreconciled differences to go undetected for months or even years is unreasonable and increases the risk of improper payments.
2. DOD's example of the exclusion of personnel data for soldiers in training underscores one of its control weaknesses. For a comparison of payroll and personnel records to be an effective control, the databases must have compatible data. The Army or DFAS could have corrected this weakness in a number of ways, such as (1) retaining personnel who are in training on the active duty personnel database, (2) entering a code on the payroll system to indicate personnel in training status, or (3) including the training personnel database in the comparison between payroll and personnel records.
3. When the Reserve personnel were transferred from the Reserve pay system to the active duty pay system during Desert Storm, their payroll and personnel records became incompatible, similar to the situation for personnel in training. This condition could have been corrected as described in comment 2.
4. The majority of mismatches occurred because the data in the Army's personnel system and in DOD's payroll system were not compatible, as discussed in comments 2 and 3 above. Properly designed systems would have minimized the number of mismatches, even during wartime. Nevertheless, the large number of mismatches should have triggered some level of research to assess the risk the mismatches posed. With some research, DFAS would have been in a better position to make a management decision. Accordingly, we do not believe that the number of errors is an acceptable reason for the lack of effort to identify and correct these errors.
5. Although the JSS task force has initiated actions to resolve JSS problems, it has not yet resolved all data discrepancies nor implemented all of the controls necessary to ensure JSS accuracy. Until these controls are in place and operating effectively, DOD is likely to continue experiencing problems with JSS processing.

6. See the "Agency Comments and Our Evaluation" section.

7. We plan to monitor the effectiveness of DFAS's efforts to collect the erroneous payments made to individuals.

8. DOD concurred with our recommendation to incorporate basic system development standards and requirements into future JSS conversions. However, in describing specific planned actions to address this recommendation, DOD only said it would identify the relevant requirements of the Services but did not commit to incorporating those requirements into JSS. We believe this is an important requirement and should be specifically addressed in DOD's plans to ensure that JSS meets the needs of the military services.

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